

SAMPLE LETTER

INDIANA HOUSING FINANCE AUTHORITY
30 SOUTH MERIDIAN STREET, SUITE 1000
INDIANAPOLIS, INDIANA 46204-3413

April 00, 2004

Series: First Home
Orig : (Code) Bank Name (Code)
SF #: Number
Loan Amount: \$00,000.00
Term: xx Months
Property: Street Address
City/Zip: City, zip
County: County name
Reserv/Appl Date: 00-00-00
Commitment Date: 00-00-00
Closing Date: 00-00-00
Loan Purchase: 00-00-00

Notice to Borrower(s) of Maximum Recapture Tax and of Method to Compute Recapture on Dispositions of Home

In accordance with Section 143 (m) of the Internal Revenue Code, the maximum recapture tax that you may be required to pay upon disposition of this property is \$0000.00. This amount is 6.25% of the highest principal amount of this mortgage loan above referenced, and is your federally subsidized indebtedness with respect to the loan.

Disposition Within Months of Closing	Holding Period Percentage	Adjusted Qualifying Income On date of Disposition, for Family Size	
		2 or Less	3 or More
1 - 12	20%	62,900	72,335
13 - 24	40%	66,045	75,951
25 - 36	60%	69,347	79,748
37 - 48	80%	72,814	83,735
49 - 60	100%	76,454	87,921
61 - 72	80%	80,276	92,317
73 - 84	60%	84,289	96,932
85 - 96	40%	88,503	101,778
97 - 108	20%	92,928	106,866
109 or More	No Recapture Tax		

A. ***Introduction***

1. **General.** When you sell your home you may have to pay a recapture tax as calculated below. The recapture tax may also apply if you dispose of your home in some other way. Any references in this notice to the "sale" of your home also includes other ways of disposing of your home. For instance, you may owe the recapture tax if you give your home to a relative.

2. **Exceptions.** In the following situations, no recapture tax is due:
 - (a) You dispose of your home later than nine years after you close your mortgage loan;
 - (b) Your home is disposed of as a result of your death;
 - (c) You transfer your home either to your spouse or to your former spouse incident to divorce and you have no gain or loss included in your income under Section 1041 of the Internal Revenue Code; or
 - (d) You dispose of your home at a loss.

B. **Maximum Recapture Tax.** The maximum recapture tax amount is 6.25% of the highest principal amount of your mortgage loan and is your federally subsidized amount with respect to the loan.

C. **Actual Recapture Tax.** The actual recapture tax, if any, can only be determined when you sell your home, and is the lesser of (1) 50% of your gain on the sale of your home, regardless of whether you have to include that gain in your income for federal income tax purposes, or (2) your recapture amount determined by multiplying the following three (3) numbers:

1. The maximum recapture tax, as described in paragraph B above;
2. The holding period percentage, as listed in Column 1 in the table; and
3. The income percentage, as described in paragraph D below.

D. **Income Percentage.** You calculate the income percentage as follows:

1. Subtract the applicable adjusted qualifying income in the taxable year in which you sell your home, as listed in column 2 in the table on page one of this letter, from your modified adjusted gross income in the taxable year in which you sell your home.

Your modified adjusted gross income means your adjusted gross income shown on your federal income tax return for the taxable year in which you sell your home, with the following two adjustments: (a) your adjusted gross income must be increased by the amount of any interest that you receive or acquire in the taxable year from tax-exempt bonds that is excluded from your gross income (under Section 103 of the Internal Revenue Code); and (b) your adjusted gross income must be decreased by the amount of any gain included in your gross income by the reason of the sale of your home.

2. If the amount calculated in (1) above is zero or less, you owe no recapture tax and do not need to make any more calculations. If it is \$5000 or more, your income percentage is 100%. If it is greater than zero but less than \$5000, it must be divided by \$5000. This fraction, expressed as a percentage, represents your income percentage. For example, if the fraction is \$1000/\$5000, your income percentage is 20%.

E. ***Limitations and Special Rules on Recapture Tax***

1. If you give away your home (other than to your spouse or ex-spouse incident to divorce), you must determine your actual recapture tax as if you had sold your home for its fair market value.
2. If your home is destroyed by fire, storm, flood, or other casualty, there generally is no recapture tax if, within two years, you purchase additional property for use as your principal residence or construct a new home on the site of the home financed with your original subsidized mortgage loan.
3. In general, except as provided in future regulations, if two or more persons own a home and are jointly liable for the subsidized mortgage loan, the actual recapture tax is determined separately for them based on their interests in the home.
4. If you repay your loan in full during the nine year recapture period and you sell your home during this period, your holding period percentage may be reduced under the special rule in Section 143(m)(4)(c)(ii) of the Internal Revenue Code.
5. Other special rules may apply in particular circumstances. You may wish to consult with a tax advisor or the local office of the Internal Revenue Service when you sell or otherwise dispose of your home to determine the amount, if any, of your actual recapture tax. See Section 143(m) of the Internal Revenue Code generally.

Sincerely,

Authorized Officer